

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
Water Branch

RESOLUTION NO. W- 4333  
June 6, 2002

**R E S O L U T I O N**

**(RES. W-4333), DEL ORO WATER COMPANY, INC., PARADISE  
PINES DISTRICT (PPD). ORDER AUTHORIZING A GENERAL  
INCREASE IN RATES PRODUCING \$121,745 OR 10.51%  
ADDITIONAL ANNUAL REVENUE.**

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**SUMMARY**

By Draft Advice Letter, accepted on November 5, 2001, PPD seeks to increase revenues by \$121,745 or 10.51% to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2002, this resolution grants an increase in gross annual revenues of \$121,745 or 10.51%, which is estimated to provide a rate of return on rate base of 9.97%.

**BACKGROUND**

PPD requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service by \$121,745 per year or 10.51% in 2002. PPD's request shows that its gross revenue of \$1,158,670 at present rates would increase to \$1,280,415 at proposed rates.

PPD's last general rate increase became effective on July 1, 1997, pursuant to Commission Res. W-4049, which authorized a rate increase of \$74,283 or 7.18% with a rate of return of 10.90%. PPD's current rates became effective on September 25, 2001, pursuant to Res. W-4300, which authorized a rate base offset increase of \$109,909 or 11.11%. PPD presently serves 4,483 metered customers in the area known as Fir Haven Subdivision, Sierra Del Oro Subdivisions, Paradise Pines Subdivisions, and vicinity, located approximately six miles north of Paradise, Butte County.

## **DISCUSSION**

The Water Division (Division) made an independent analysis of PPD's summary of earnings. Appendix A shows PPD's and the Division's estimates of the summaries of earnings at present, requested, and adopted rates for test year 2002. Appendix A also shows differences between PPD's and the Division's estimates of operating expenses and rate base. PPD accepted the Division's estimates but requests authority to establish a full-cost purchased power balancing account. The Division believes that there are opportunities for PPD to reduce power costs by making certain adjustments to its operation. A full-cost balancing account, which requires refunding of any savings in power costs to customers, would certainly remove any motivation for the utility to pursue changes in its operation to improve efficiency. Instead Division recommends that a purchase power memorandum account be authorized. PPD is not required to seek recovery from a memorandum account. If it does so, PPD's ability to recover from the purchase power memorandum account is contingent upon the reasonableness of account entries and shall include, but not be limited to, on assessment of the utility's reasonable pursuit of energy efficiency measures.

PPD's draft advice letter requested rates that it estimated would produce a rate of return on rate base of 9.97%. The Division's Audit and Compliance Branch (ACB) has determined that a 9.97% rate of return for PPD is reasonable, therefore, the summary of earnings in Appendix A shows a rate of return of 9.97% at the Division's recommended rates. PPD did not include in its projected power expenses PG&E's rate surcharge increases authorized by Commission Decisions 01-03-082 and 01-05-064. Therefore, its purchased power cost estimate is understated. In contrast, the Division based its estimate on projected power consumption in the test year using current Pacific Gas and Electric Company's rates which include the latest rate surcharge increases. Accordingly, Division's estimate of \$385,439 exceeds PPD's estimates of \$246,461 by \$138,978. In order that PPD not earn more than the 9.97% rate of return found reasonable by ACB, the Division recommended that only \$315,439 of purchased power expense be recovered in rates. Although this amount falls \$69,908 short of the Division's estimate of \$385,439, the total rate increase recommended by Division is the same as the full amount requested by PPD and noticed to its customers. Furthermore, the Division believes that PPD may significantly reduce its power expense by making certain efficiency improvement adjustments in its operation. PPD plans to implement such improvements or adjustments. They could include installing a single primary meter for Well # 6 and the booster pump, installing variable frequency drives for its pump motors and installing a self generation system. These improvements should reduce power costs enough to where PPD should be able to cover its costs in rates. Since it will be necessary for PPD to invest capital for utility plant and equipment in order to make the energy efficiency improvements, it should be allowed to file, by advice letter, for appropriate rate relief to recover the prudent capital costs associated

with the energy efficiency improvement of its system. PPD has indicated that it will work with the Division to make the adjustments.

Under guidelines established by Commission Decision No. (D.) 92-03-093, the Commission staff must calculate net revenues by both the return on rate base and the operating ratio methods that determine revenue and select the method that produces the most revenue. Division evaluated the net revenue using both methods and determined that the return on rate base method provides the most revenue.

PPD's filed tariffs currently contain one rate schedule, Schedule No. PP-1A – Annual General Metered Service. PPD proposes to increase rates uniformly, increasing both the service charge rates and the commodity rate by the system average increase of 10.51%. Current rate design policy allows Class B water utilities to recover up to 50% of its fixed costs in the service charge component of a metered rate schedule. Compliance with this policy was inadvertently overlooked when rates were set in PPD's last general rate case, therefore, a uniform increase in service charge and commodity rates proposed by PPD will only perpetuate non-compliance with service charge revenue recovering approximately 68% of fixed costs. Although the Division recommended rates, shown in Appendix B, allow 62% recovery of fixed costs in the service charge, it is a reduction from 68%. Division recommends that further reduction be made in subsequent general rate increases until 50% is achieved. The rate design recommended by Division also makes adjustments to the service charges for meters greater than 1-inch in order to more closely conform to the rate design policy for service charge allocation by meter size established in Commission D.85-06-064.

At the Division's recommended rates shown in Appendix B, the monthly bill for a 5/8 X 3/4 metered customer using 1,000 cubic feet of water will increase by \$2.22 from \$21.30 to \$23.52 or 10.42%. A comparison of customer bills at present and recommended rates is shown in Appendix C.

The adopted quantities and tax calculations are shown in Appendix D.

### **NOTICE AND PROTESTS**

A notice of the proposed increase in rates and notice of a public meeting were mailed to each customer on November 15, 2001. The Division received six letters responding to the notice. The responses complained of the magnitude of the requested increase. The Commission's Consumer Affairs Branch (CAB) reports that it has received two complaints on PPD and they were both related to billing.

CAB informed the Division that PPD promptly responds and resolves complaints.

On December 12, 2001, the Division held a public meeting in PPD's service area. The Division's representative explained the Commission's rate-setting procedure and the utility's representative explained the need for the increase. There were three individuals present at the meeting. The comments and questions raised by the persons attending the meeting dealt mainly with the need and magnitude of the increase.

### **FINDINGS AND CONCLUSIONS**

1. The Division's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be authorized.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is the full amount requested by PPD and noticed to its customers.
5. The rate increase recommended by the Division includes a projected power expense less than actual year 2001 usage at current PG&E rates and surcharges.
6. PPD plans to pursue development of energy efficiency measures to achieve reduced power costs.
7. It is reasonable for PPD to have a purchased power memorandum account to track power costs in the event that the reasonable power efficiency measures pursued by PPD are unsuccessful.
8. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.
9. Power costs may significantly be reduced by adjusting certain utility operations thereby causing the cost of power not to exceed the power expense estimate recommended by the Division.

### **THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 for the Del Oro Water Company, Inc., Paradise Pines District, to file an advice letter incorporating the Summary of Earnings and revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently to cancel its presently effective rate Schedule No. PP-1A – Annual General Metered Service. Its filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days

after the date of filing.

2. Del Oro Water Company, Inc., Paradise Pines District, is authorized to establish a purchase power memorandum account to track power costs.
3. Del Oro Water Company, Inc., Paradise Pines District, may, but is not required to, seek recovery of memorandum account by advice letter. Said recovery is contingent upon the reasonableness of account entries and shall include an assessment of whether Paradise Pines District has pursued reasonable energy efficiency measures.
4. Del Oro Water Company, Inc., Paradise Pines District, may file, by advice letter, for appropriate rate relief related to prudent capital investment associated with the energy efficiency improvement of its system.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on June 6, 2002; the following Commissioners voting favorably thereon:

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WESLEY M. FRANKLIN  
Executive Director

LORETTA M. LYNCH  
President

HENRY M. DUQUE

CARL W. WOOD

GEOFFREY F. BROWN

MICHAEL R. PEEVEY

Commissioners

**APPENDIX A**  
**SUMMARY OF EARNINGS**

**DEL ORO WATER COMPANY, PARADISE PINES DISTRICT**  
**TEST YEAR 2002**

|                           | PPD Estimated    |                  | Branch Estimated   |                  | Recommended Rates |
|---------------------------|------------------|------------------|--------------------|------------------|-------------------|
| Item                      | Present Rates    | Requested Rates  | Present Rates      | Requested Rates  |                   |
| <b>Operating Revenues</b> |                  |                  |                    |                  |                   |
| Metered                   | 1,158,670        | 1,280,415        | 1,158,670          | 1,350,329        | 1,280,415         |
| Other                     |                  |                  |                    |                  |                   |
| <b>Total Revenues</b>     | <b>1,158,670</b> | <b>1,280,415</b> | <b>1,158,670</b>   | <b>1,350,329</b> | <b>1,280,415</b>  |
| <b>Operating Expenses</b> |                  |                  |                    |                  |                   |
| Purchased Water           | 16,215           | 16,215           | 0                  | 0                | 0                 |
| Purchased Power           | 246,461          | 246,461          | 385,439            | 385,439          | 315,531           |
| Employee Labor            | 147,581          | 147,581          | 132,959            | 132,959          | 132,959           |
| Materials                 | 16,899           | 16,899           | 16,753             | 16,753           | 16,753            |
| Contract Work             | 20,636           | 20,636           | 20,517             | 20,517           | 20,517            |
| Transportation            | 36,947           | 36,947           | 31,729             | 31,729           | 31,729            |
| Other Plant Maint.        | 491              | 491              | 488                | 488              | 488               |
| Office Salaries           | 126,072          | 126,072          | 125,555            | 125,555          | 125,555           |
| Mgmt. Salaries            | 75,339           | 75,339           | 73,543             | 73,543           | 73,543            |
| Empl. Pens. & Benefits    | 42,637           | 42,637           | 42,637             | 42,737           | 42,737            |
| Uncollectibles            | 5,686            | 5,686            | 5,686              | 5,686            | 5,686             |
| Office Svc. & Rentals     | 57,646           | 57,646           | 57,646             | 57,646           | 57,646            |
| Office Supp. & Exps.      | 57,222           | 57,222           | 53,613             | 53,613           | 53,613            |
| Professional Services     | 31,674           | 31,674           | 6,944              | 6,944            | 6,944             |
| Insurance                 | 20,731           | 20,731           | 14,182             | 14,182           | 14,182            |
| Reg. Comm. Exp.           | 13,351           | 13,351           | 8,365              | 8,365            | 8,365             |
| General Expense           | 4,797            | 4,797            | 4,769              | 4,769            | 4,769             |
| Other Volume Related      | 990              | 998              | 990                | 990              | 990               |
| <b>Subtotal</b>           | <b>921,383</b>   | <b>921,383</b>   | <b>981,815</b>     | <b>981,815</b>   | <b>911,907</b>    |
| Depreciation              | 111,634          | 111,634          | 123,554            | 123,554          | 123,554           |
| Payroll taxes             | 19,740           | 19,740           | 19,741             | 19,741           | 19,741            |
| Property taxes            | 28,068           | 28,068           | 28,068             | 28,068           | 28,068            |
| Income Taxes              | 800              | 8,914            | 800                | 8,366            | 8,367             |
| <b>Total Deductions</b>   | <b>1,081,625</b> | <b>1,089,739</b> | <b>\$1,153,978</b> | <b>1,153,978</b> | <b>1,091,636</b>  |
| Net Revenue               | 77,081           | 190,704          | 4,692              | 126,437          | 188,877           |
| Rate Base                 |                  |                  |                    |                  |                   |
| Average Plant             | 5,636,507        | 5,636,507        | 5,636,507          | 5,636,507        | 5,636,507         |
| Average Depr. Res.        | -3,462,531       | -3,462,531       | -3,488,827         | -3,488,827       | -3,488,827        |
| Net Plant                 | 2,173,976        | 2,173,976        | 2,187,680          | 2,187,680        | 2,187,680         |
| Less: Advances            | -86,100          | -86,100          | -86,100            | -86,100          | -86,100           |
| Contributions             | -259,508         | -259,508         | -290,325           | -290,325         | -290,325          |
| Deferred income taxes     |                  |                  |                    |                  |                   |
| Plus: Working Cash        | 76,779           | 76,779           | 81,062             | 81,062           | 74,992            |
| Mat'l & Suppl.            | 7,157            | 7,157            | 7,157              | 7,157            | 7,157             |
| Rate Base                 | 1,912,304        | 1,912,307        | 1,899,463          | 1,899,463        | 1,893,404         |
| <b>Rate of Return</b>     | <b>4.03%</b>     | <b>9.97%</b>     | <b>0.25%</b>       | <b>9.97%</b>     | <b>9.97%</b>      |

(END OF APPENDIX A)

**APPENDIX B**  
**RATES**

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**Del Oro Water Company, Paradise Pines District**  
**Test Year 2002**

**Schedule No. PP-1A**

**ANNUAL GENERAL METERED SERVICE**  
**PARADISE PINES DISTRICT**

**APPLICABILITY**

Applicable to all metered water service furnished on an annual basis to the Paradise Pines District service area.

**TERRITORY**

All territories served by Del Oro Water Company, Inc. in the area known as Paradise Pines Subdivisions, and vicinity, located approximately 6 miles north of Paradise, Butte County.

**RATES**

Quantity Charge:

All Water, per 100 cu.ft..... \$1.3420

Service Charge:

Per Meter  
Per Year

|                                |            |
|--------------------------------|------------|
| For 5/8 x 3/4-inch meter ..... | \$121.20   |
| For 3/4-inch meter .....       | \$182.40   |
| For 1-inch meter .....         | \$306.00   |
| For 1.5-inch meter.....        | \$516.96   |
| For 2-inch meter.....          | \$709.92   |
| For 3-inch meter .....         | \$1,223.04 |
| For 4-inch meter.....          | \$1,617.96 |

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

(END OF APPENDIX B)

**APPENDIX C**  
**COMPARISON OF RATES**

**Del Oro Water Company, Paradise Pines District**  
**Test Year 2002**

|   |               | Per Service Connection Per Year |                   |            |
|---|---------------|---------------------------------|-------------------|------------|
|   |               | Present Rates                   | Recommended Rates | % Increase |
| Metered Rate Service  |               |                                 |                   |            |
| Service Charge:   |               |                                 |                   |            |
| 5/8 x 3/4-inch meter  |               | 121.20                          | 121.20            | 0          |
| 3/4 - inch  |               | 182.40                          | 182.40            | 0          |
| 1-inch meter  |               | 306.00                          | 306.00            | 0          |
| 1 1/2 - inch  |               | 427.80                          | 516.96            | 20.8415    |
| 2-inch meter  |               | 587.40                          | 709.92            | 20.8580    |
| 3-inch meter  |               | 1,011.00                        | 1,223.04          | 20.9733    |
| 4-inch meter  |               | 1,337.40                        | 1,617.96          | 20.9780    |
| Quantity Charge   |               |                                 |                   |            |
| Total charge All water, per 100 cu. ft.   |               | 1.12                            | 1.3420            | 19.82142   |
| Quantity Charge structure:  |               | Base Rate<br>Total charge       | 1.3420<br>1.3420  |            |
|   |               |                                 |                   |            |
| A monthly comparison bill for a customer with a 5/8 x 3/4 -inch meter is shown below: |               |                                 |                   |            |
| Monthly Usage in 100 cu. ft.  | Present Bills | Recommended Bills               | Amount Increase   | % Increase |
|   | \$            | \$                              | \$                | %          |
| 0   | 10.10         | 10.10                           | 0                 | 0.0%       |
| (Average) 10  | 21.30         | 23.52                           | 2.22              | 10.423%    |
| 20  | 32.50         | 36.94                           | 4.44              | 13.662%    |
| 40  | 54.90         | 63.78                           | 8.88              | 16.175%    |
| 60  | 77.30         | 90.62                           | 13.32             | 17.232%    |
| 80  | 99.70         | 117.46                          | 17.76             | 17.8i3%    |
| 100   | 122.10        | 144.30                          | 22.20             | 18.182%    |
|   |               |                                 |                   |            |

(END OF APPENDIX C)



**APPENDIX D  
PAGE 1  
DEL ORO WATER COMPANY  
PARADISE PINES DISTRICT  
ADOPTED QUANTITIES  
TEST YEAR 2002**

1. Purchased Power

Pacific Gas and Electric Company  
Effective Date January 1, 2002  
Schedule A-1 Medium General Demand Metered Service

ENERGY CHARGE  
(per kWh per month)

|        |           |
|--------|-----------|
| Summer | \$0.1487  |
| Winter | \$0.10193 |

ENERGY PROCUREMENT SURCHARGE  
(per kWh per month)

|        |           |
|--------|-----------|
| Summer | \$0.0714  |
| Winter | \$0.03838 |

|            |           |
|------------|-----------|
| Total Cost | \$385,439 |
|------------|-----------|

|                          |           |
|--------------------------|-----------|
| Total kWh                | 1,971,447 |
| Average Unit Cost \$/kWh | \$0.19551 |

2. Payroll

|                     |           |
|---------------------|-----------|
| Employee Labor      | \$132,959 |
| Office Salaries     | \$125,555 |
| Management Salaries | \$ 73,543 |

|                  |          |
|------------------|----------|
| 3. Payroll Taxes | \$19,741 |
|------------------|----------|

|                   |          |
|-------------------|----------|
| 4. Property taxes | \$28,068 |
|-------------------|----------|

**APPENDIX D  
PAGE 2  
DEL ORO WATER COMPANY  
PARADISE PINES DISTRICT  
ADOPTED QUANTITIES  
TEST YEAR 2002**

Service Connections

| Meter Size        |             |
|-------------------|-------------|
| 5/8 x 3/4 " ..... | 4445        |
| 3/4 " .....       | 0           |
| 1" .....          | 21          |
| 1-1/2 " .....     | 9           |
| 2" .....          | 2           |
| 3" .....          | 3           |
| 4" .....          | 3           |
|                   | <u>4483</u> |

Metered Water Sales Used to Design Rates

|                 | <u>Usage – Ccf/Year</u> |
|-----------------|-------------------------|
| General Metered | 537,000                 |
|                 | =====                   |

**ADOPTED TAX CALCULATIONS**

|                                 |             |
|---------------------------------|-------------|
| 1. Operating Revenues           | \$1,280,415 |
| 2. Expenses                     | \$911,890   |
| 3. Depreciation                 | \$123,554   |
| 4. Taxes Other Than Income      | \$47,808    |
| 5. Interest Expense             | \$160,000   |
| 6. Taxable Income for State Tax | \$37,162    |
| 7. State Tax                    | \$3,285     |
| 8. Taxable Income for FIT       | \$33,877    |
| 9. Federal Tax                  | \$5,082     |

(END OF APPENDIX D)

Resolution W-4333  
PPD/DR AL/ABJ/PTL/RKN:jlj

June 6, 2002